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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 1992

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended March 31, 1992 Commission File Number 0-11078

The American Education Corporation
(Exact name of registrant as specifiedin its charter)

Colorado	84-0838184
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer IdentificationNo.)

7506 N. Broadway Ext., Suite 505, Oklahoma City, OK 73116
(Address of principal executive offices) (Zip Code)

(Registrant's telephone number, including area code) (405) 840-6031

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's class of cmmon stock, as of the latest practicable date.

Class: Common Stock, $.025 par value

Number of shares outstanding as of May 13, 1992: 3,178,700

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THE AMERICAN EDUCATION CORPORATION

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CONSOLIDATED BALANCE SHEETS

	March 31, 1992	December 31, 1991
LIABILITIES AND STOCKHOLDER'S EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 346,215	$ 387,896
Notes payable, current portion	219,420	219,940
Total current liabilities	565,635	607,836
LONG-TERM NOTES PAYABLE	355,000	125,000
STOCKHOLDERS' EQUITY:		
Preferred Stock - .001 par value; 50,000,000 shares authorized; 30,000,000 shares issued and outstanding at March 31, 1992 and December 31, 1991	30,000	30,000
Common Stock - $.025 par value; 15,000,000 shares authorized; 3,178,000 and 1,945,265 shares issued and outstanding at March 31, 1992 and December 31, 1991	79,260	79,260
Additional paid- on capital	2,784,281	2,784,281
Accumulated deficit	(2,193,375)	(2,285,483)
Total stockholders' equity	700,166	608,058
TOTAL	$ 1,620,801	$ 1,340,894

See notes to consolidated financial statements.

THE AMERICAN EDUCATION CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended March 31, 1992	Three Months Ended March 31, 1991
REVENUES:		
Software	$ 429,439	$ 233,170
Video	103,589	184,106
	533,028	417,276
EXPENSES:		
Production	235,860	208,845
Selling	91,478	78,568
General & administrative	113,582	111,902
TOTAL	440,920	399,315
NET INCOME (LOSS)	$ 92,108	$ 17,961
NET INCOME (LOSS) PER COMMON SHARE	$ .028	$ .008

See notes to consolidated financial statements.

THE AMERICAN EDUCATION CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	For The Three Months Ended March 31, 1992	March 31, 1991
OPERATING ACTIVITIES:		
Net Income (Loss)	$ 92,108	$ 17,961
Adjustments to reconcile net income to net cash provided from operating activities:		
Depreciation and amortization	39,145	18,587
Changes in operating assets and liabilities net of effects from purchase of American Educational Computer, Inc.:		
Accounts receivable	(192,026)	(137,078)
Inventories	71,969	64,048
Prepaid expenses and other assets	8,511	(1,687)
Accounts payable and accrued liabilities	(38,315)	(12,070)
Net cash provided (used) in operating activities	(18,608)	(50,239)
INVESTING ACTIVITIES:		
Purchase of property & equipment	-	(8,964)
Investment in product costs	-	(4,326)
Net cash used in investing activities	-	13,290
FINANCING ACTIVITIES:		
Proceeds from note payable	20,000	60,000
Net cash provided (used) in financing activities	20,000	60,000
NET INCREASE (DECREASE) IN CASH AND CERTIFICATES OF DEPOSIT	1,392	(3,529)
CASH AND CERTIFICATES OF DEPOSIT, Beginning of period	-	8,513
CASH AND CERTIFICATES OF DEPOSIT, End of period	$ 1,392	$ 4,984

See notes to consolidated financial statements.

THE AMERICAN EDUCATION CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 1992 AND MARCH 31, 1991

1. BASIS OF PRESENTATION:

The interim financial statements at March 31, 1992, and for the three months ended March 31, 1992, are unaudited, but include all adjustments which the Company considers necessary for a fair presentation. The December 31, 1991, balance sheet was derived from the Company's audited financial statements.

The accompanying unaudited financial statements are for interim periods and do not include all disclosures normally provided in annual financial statements, and should be read in conjunction with the Company's audited financial statements. The accompanying unaudited interim financials for the three months ended March 31, 1992, are not necessarily indicative of the results which can be expected for the entire fiscal year.

2. LOAN AGREEMENTS:

On January 9, 1991, the Company entered into a loan agreement ("Agreement") with John Garber ("Garber") whereby the Company borrowed $110,000, which amount may be converted into shares of the Company's common stock at the option of Garber at an exchange rate of $.1346 (post split) per share. Fifty thousand dollars was advanced pursuant to this Agreement on the same date, with the remainder to be paid to the Company in $5,000 monthly installments, which began February 15, 1991, and continued through January 15, 1992. Terms of the Agreement provide for quarterly interest payments at 12% per annum, with the principal and remaining accrued and unpaid interest due and payable on January 15, 1993. As of March 31, 1992, a total of $110,000 had been advanced pursuant to this Agreement.

On April 15, 1991, the Company entered into a second loan agreement with Garber whereby the Company borrowed an additional $125,000, which amount was advanced on this same date. The terms of this note, which also includes the conversion privilege, are the same as those provided for in the January 9, 1992 agreement. Effective June 15, 1991, Mr. Garber converted $94,480 of the outstanding loan balance into 701,931 shares (post split) of common stock in the Company.

On January 2, 1992, the Company entered into an additional loan agreement with Mr. Garber whereby the Company borrowed an additional $15,000, such amount advanced on this same

date. This note also contains a conversion privilege and matures with the earlier loan agreements.

3. COMMON STOCK

Upon the acquisition of the assets of AEC, the Company authorized issuance of 120,000 (post split) shares of common stock to an officer of the Company for services rendered with an option to purchase another 120,000 or three percent (3%) of the outstanding shares, whichever is greater, for $.1337 per share (post split). These options were executed on May 15, 1991. Pursuant to a product license agreement, the Company issued 150,000 share of its common stock, in lieu of cash, to the licensor as compensation for access to the product. Further, the Company issued an additional 68,700 shares of its common stock to AEC Acquisitions in lieu of accrued interest of $34,350 otherwise due related to the $600,000 Convertible Note (See Item 2).

4. PREFERRED STOCK:

On August 26, 1991, the Company issued to AEC Acquisitions, Inc. 30,000,000 shares of preferred stock, upon conversion of the $600,000 Convertible Note executed upon the acquisition of the assets of AEC (See item 2).

5. SUBSCRIPTIONS RECEIVABLE:

On March 31, 1992, the Company received subscriptions of $200,000 to its Convertible Subordinated Debt offering. This program offers for investment a minimum of $50,000 and a maximum of $300,000 12% Convertible Subordinated Notes due December 31, 1994. The notes will bear interest at the rate of 12% per annum, payable quarterly beginning June 30, 1992. On April 15, 1992, the Company received $100,000 in funding from the subscribed amount.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Resources - Asset Purchase Agreement

On January 8, 1991, the Company purchased substantially all of the assets of American Educational Computer, Inc. ("AEC"), and assumed specific trade accounts payable and other accrued liabilities related to AEC's current business. The purchase price of $990,000 was paid in the following manner:

(1) $190,000 cash payment deposited in escrow as of December 31,1990;

(2) $200,000 note payable at 9% interest, with interest only due quarterly through October 1, 1991, and quarterly principal and interest payments of $50,000 plus accrued interest thereafter, with final payment due on July 1, 1992; and

(3) $600,000 convertible note payable at 9% interest, with principal and accrued interest payable in full July 1, 1991, manditorily convertible into 30,000,000 shares of non-voting preferred stock upon the Company's authorization of such issuance.

Management has considered these transactions which have required substantial utilization of funds, as well as anticipated operating requirements for the near term. Additional working capital beyond that currently available to the Company will be required to expand operations. Management is, therefore, considering options available in providing such funding, including bank debt financing,convertible debt issuance and equity financing through the sale of the Company's securities.

Liquidity and Capital Resources

For the quarter ended March 31, 1992, the Company's working capital position (current assets minus current liabilities) decreased by approximately $99,000 from the same period in fiscal 1990. This decrease is the result of the Company's short-term working capital credit line, secured during July of 1991 and the reclassification of certain current assets at December 31, 1991 into long-term assets. The working capital position has, however, for the quarter ended March 31, 1992, increased by approximately $355,000 from December 31, 1991. This increase is attributable to an increase in accounts receivable balances related to improved sales of the Company's new school products, as well as subscriptions to a Convertible Debt Program. The Company expects to realize the cash proceeds of the Convertible Debt Program in the second quarter of fiscal 1992 (See Note 5).

The Company continues to view accounts receivable and salable inventory as its principle measures of liquidity. The Company is planning to supplement cash from operations through the aforementioned Convertible Debt Program and is considering the need to further expand its existing bank credit line. During July of 1991, the Company entered into a revolving credit line with a local bank as a source for short-term working capital. This line originally in the amount of $75,000 was expanded to $150,000 in November of 1991 and will mature in June of 1992. The Company is in compliance with all covenants of the bank note and management believes that this note will be renewed prior to maturity.

The seasonal nature of the Company's business creates peak demand for working capital during the summer and early fall months that may not be supplied by operations in this time period. Such a demand has been further impacted by a slower than expected fourth quarter of 1991, as a result of delays in the completion of new software for the school market. Working capital is required during this time for activities such as developing and licensing products and initiating marketing and promotional programs for the remainder of the year. As noted, management is evaluating the need to expand existing banking relationships to better address the working capital requirements for this period, as well as actively planning additional financing programs.

Quarter Ended March 31, 1992 As Compared To
The Quarter Ended March 31, 1991

Net revenues for the three-month period ended March 31, 1992, increased by approximately $115,753, or $28% over the comparable quarterly period in 1991. This increase is due primarily to the significant sales of the Company's newly developed school products, Mathematics Skills Development Program (MSDP) and Language Skills Development Program (LSDP), which were released early in the first quarter of 1992. The introduction of these products has allowed the Company to expand the physical number of national, and regional distributors representing the Company's products. Management also believes the new products and the expanded distributor network also helped to increase total sales of all of the Company's products to schools during the quarter ended March 31, 1992. This increase reflects, what management believes, is a positive marketplace reception to its existing and newly developed software products and management anticipates that this trend towards improved revenues should continue for the duration of 1992.

Production expense, for the quarter ended March 31, 1992, which includes product materials and overhead costs, increased by approximately $27,015, or 13.0% over the same period during 1991. This change in expense levels is due to increased 1992 sales volume over the same quarterly period in 1991. While production expenses associated with sales increased in real dollar terms over the period due to the higher level of sales, expenses decreased as a percentage

of total sales. This favorable change is due to a larger percentage of the higher gross margin of the Company's new school products (LSPD and MSPD), cost controls and improved purchasing practices. As a result of the above factors, the Company also experienced improved gross margins on sales for the first quarter of 1992.

General and administrative expenses for the period ended March 31, 1992 increased by approximately $1,680, or 1.0% over the comparable three month period in 1991. During the 1992 quarter versus the 1991 quarter, the Company spent more funds that were directly related to ongoing operations and the direct development of the business. The Company was able to focus financial resources in this category of expenditure as a result of lower interest costs and the absence of certain, one-time costs associated the asset purchase which occurred in the comparable 1991 quarterly period.

Selling expenses include salaries and commissions related the sales of the Company's software and video products. Such expenses for the quarter ended March 31, 1992, increased by approximately $12,910, or 16.0% over the same period in 1991. This increase is related to the aforementioned expanded sales and marketing efforts implemented by the Company in the introduction of the new school products early in the first quarter of 1992 and the expansion of the Company's distribution network.

The Company's net income was $92,108 for the three month period ended March 31, 1992, reflecting an improvement of $74,147, or 512.8% over the same quarterly period in 1991. The Company has a net operating loss carry forward of $2,193,375 and, accordingly, does not anticipate federal, or state income tax expense consequences to be associated with earnings for the 1992 quarter This improvement is the direct result of the previously described changes in the Company's product sales mix for the 1992 quarter. During the 1992 quarter, approximately 80.0% of total revenues were comprised of sales from the Company's high margin software and newly released school software products. The product sales mix for the same quarter in 1991 reflected software revenues that represented approximately 55.0% of the Company's total revenues for this quarter, while educational video products represented approximately 45.0% of revenues. It is management's belief that this product sales mix trend, where software is the dominant source of revenues, is likely to continue for the remainder of 1992. During the quarter ended March 31, 1992, the Company's educational video product line did not achieve its plan expectations, primarily as a result of the credit impairment of one of its important distributors very early in the first quarter of 1992. During the quarter the Company collected all funds at risk and expects to reestablish relationships, or to identify alternate methods of reaching end users formerly served by this distributor. This educational video segment of the Company's business is scheduled additional investment throughout 1992 and

management believes that this product area is a source for future growth and profitability for the Company.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Omitted from this report as inapplicable.

Item 2. Changes in Securities

Omitted from this report as inapplicable.

Item 3. Default Upon Senior Securities

Omitted from this report as inapplicable.

Item 4. Submission of Matters to Vote of Securities Holders

Omitted from this report as inapplicable.

Item 5. Other Information

Omitted from this report as inapplicable.

Item 6. Exhibits and Reports on Form 8-K

Omitted from this report as inapplicable.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned.

THE AMERICAN EDUCATION CORPORATION

May 13, 1992 By: _____
Jeffrey E. Butler
Chief Executive Officer

May 13, 1992 By: _____
Douglas G. Franklin
Chief Financial Officer